

108TH CONGRESS  
2D SESSION

# H. R. 4895

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide for enhanced retirement security in the form of an Individual Investment Program.

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## IN THE HOUSE OF REPRESENTATIVES

JULY 22, 2004

Mr. SAM JOHNSON of Texas (for himself, Mr. TOOMEY, Mr. FLAKE, Ms. DUNN, Mr. SHADEGG, Mr. FEENEY, Mr. SMITH of Michigan, Mr. DOOLITTLE, Mr. BURTON of Indiana, Mr. HOEKSTRA, Mr. OTTER, Mr. BARTLETT of Maryland, Mr. FRANKS of Arizona, Mr. PITTS, and Mr. WILSON of South Carolina) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend title II of the Social Security Act and the Internal Revenue Code of 1986 to provide for enhanced retirement security in the form of an Individual Investment Program.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

### 3 **SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.**

4 (a) SHORT TITLE.—This Act may be cited as the  
5 “Individual Social Security Investment Program Act of  
6 2004”.

(b) TABLE OF CONTENTS.—The table of contents is as follows:

Sec. 1. Short title and table of contents.

Sec. 2. Establishment of Individual Social Security Investment Program.

**“PART B—INDIVIDUAL SOCIAL SECURITY INVESTMENT PROGRAM**

“Sec. 251. Definitions.

“Sec. 252. Individual investment of social security contributions; part B totalization accounts.

“Sec. 253. Tier I Investment Fund.

“Sec. 254. Tier II Investment Fund.

“Sec. 255. Tier III investment accounts.

“Sec. 256. Retirement distributions.

“Sec. 257. Recognition bonds.

“Sec. 258. Supplemental minimum benefit payments.

“Sec. 259. Election for participation.

“Sec. 260. Early distribution and termination of participation in program.

“Sec. 261. Individual Investment Board.

“Sec. 262. Executive Director of the Individual Investment Board.

Sec. 3. Tax treatment of Individual Social Security Investment Program.

Sec. 4. Exclusion of Individual Investment Program participants from insurance benefits.

Sec. 5. CPI-indexed benefits for Part A beneficiaries other than disability beneficiaries.

Sec. 6. Maintenance of adequate balances in the Social Security Trust Funds.

**3 SEC. 2. ESTABLISHMENT OF INDIVIDUAL SOCIAL SECURITY  
4 INVESTMENT PROGRAM.**

(a) IN GENERAL.—Title II of the Social Security Act is amended—

(1) by inserting before section 201 the following:

**“PART A—INSURANCE BENEFITS”**; and

(2) by adding at the end the following new part:

**“PART B—INDIVIDUAL SOCIAL SECURITY  
INVESTMENT PROGRAM**

**“SEC. 251. DEFINITIONS.**

“For purposes of this part—

1           “(1) PARTICIPANT.—The term ‘participant’  
2       means—

3           “(A) any individual who is born on or after  
4       January 1, 1983, and—

5           “(i) receives wages in any calendar  
6       year after December 31, 2004, on which  
7       there is imposed a tax under section  
8       3101(a) of the Internal Revenue Code of  
9       1986, or

10          “(ii) derives self-employment income  
11       for a taxable year beginning after Decem-  
12       ber 31, 2004, on which there is imposed a  
13       tax under section 1401(a) of the Internal  
14       Revenue Code of 1986, and

15          “(B) any individual who is born on or after  
16       January 1, 1950, and before January 1, 1983,  
17       and—

18          “(i)(I) receives wages in any calendar  
19       year ending before January 1, 2004, on  
20       which there is imposed a tax under section  
21       3101(a) of the Internal Revenue Code of  
22       1986, or

23          “(II) derives self-employment income  
24       for a taxable year beginning before Janu-  
25       ary 1, 2004, on which there is imposed a

1 tax under section 1401(a) of the Internal  
2 Revenue Code of 1986, and

3 “(ii) has filed an election for partici-  
4 pation in accordance with section 259.

5 “(2) BOARD.—The term ‘Board’ means the In-  
6 dividual Investment Board established under section  
7 261.

8 “(3) EXECUTIVE DIRECTOR.—The term ‘Execu-  
9 tive Director’ means the Executive Director ap-  
10 pointed under section 262.

11 “(4) PART B TOTALIZATION ACCOUNT.—The  
12 term ‘part B totalization account’ means an account  
13 established for a participant under section 252(d).

14 “(5) TIER I INVESTMENT FUND.—The term  
15 ‘Tier I Investment Fund’ means the trust fund cre-  
16 ated under section 253.

17 “(6) TIER II INVESTMENT FUND.—The term  
18 ‘Tier II Investment Fund’ means the trust fund cre-  
19 ated under section 254.

20 “(7) TIER III INVESTMENT ACCOUNT.—The  
21 term ‘Tier III investment account’ means a trust es-  
22 tablished pursuant to section 255.

1 **“SEC. 252. INDIVIDUAL INVESTMENT OF SOCIAL SECURITY**  
2 **CONTRIBUTIONS; PART B TOTALIZATION AC-**  
3 **COUNTS.**

4 “(a) PAYMENTS INTO TIER I INVESTMENT FUND.—

5 “(1) IN GENERAL.—During each calendar year,  
6 the Secretary of the Treasury shall deposit into the  
7 Tier I Investment Fund (established under section  
8 253), from amounts held in the Federal Old-Age and  
9 Survivors Insurance Trust Fund, a total amount  
10 equal, in the aggregate, to 100 percent of the redi-  
11 rected social security contribution for such calendar  
12 year of each individual who is a participant for such  
13 calendar year.

14 “(2) REDIRECTED SOCIAL SECURITY CONTRIBU-  
15 TIONS.—For purposes of paragraph (1) the term ‘re-  
16 directed social security contributions’ of a partici-  
17 pant for a calendar year means the product derived  
18 by multiplying—

19 “(A) the sum of the total wages paid to,  
20 and self-employment income derived by, the  
21 participant during such calendar year (taking  
22 into account limits imposed by the contribution  
23 and benefit base under section 230), by

24 “(B) 6.2 percent.

25 “(3) TRANSFERS BASED ON ESTIMATES.—The  
26 amounts deposited pursuant to paragraph (1) shall

1 be transferred in at least monthly payments from  
2 the Federal Old-Age and Survivors Insurance Trust  
3 Fund to the Tier I Investment Fund, such amounts  
4 to be determined on the basis of estimates, by the  
5 Commissioner of Social Security and certified to the  
6 Secretary of the Treasury under part A, of the  
7 wages paid to, and self-employment income derived  
8 by, participants, and proper adjustments shall be  
9 made in amounts subsequently transferred to the ex-  
10 tent prior estimates were in excess of or were less  
11 than actual amounts.

12 “(4) SEPARATE ACCOUNTING AND CRED-  
13 ITING.—

14 “(A) IN GENERAL.—Subject to this para-  
15 graph, the Board shall provide, after the close  
16 of each calendar year, for prompt accounting of  
17 the amounts deposited in the Tier I Investment  
18 Fund with respect to each participant during  
19 such calendar year to such individual’s part B  
20 totalization account (established under sub-  
21 section (d)), together with properly allocated in-  
22 creases and decreases in such amounts reflect-  
23 ing the net returns from investment of the bal-  
24 ance of the Fund during such year under sec-  
25 tion 253. For purposes of determining such in-

1           creases and decreases in such amounts for each  
 2           calendar year, the amounts deposited into the  
 3           Fund in connection with any participant during  
 4           such calendar year shall be deemed to have  
 5           been deposited on June 30 of such year.

6           “(B) CREDITING.—Under such accounting,  
 7           amounts deposited into the Fund during each  
 8           calendar year with respect to the redirected so-  
 9           cial security taxes of each participant (including  
 10          net returns and losses from the investment  
 11          Fund attributed to such amounts under this  
 12          paragraph) shall be credited to such partici-  
 13          pant’s part B totalization account not later  
 14          than the end of the succeeding calendar year.

15          “(b) TRANSFERS INTO TIER II INVESTMENT  
 16          FUND.—

17          “(1) IN GENERAL.—Upon the crediting to a  
 18          participant’s part B totalization account of any  
 19          amount held in the Tier I Investment Fund for any  
 20          calendar year, the Board shall (except as provided in  
 21          section 260(a)(2)) transfer the amount so credited  
 22          to such account from the Tier I Investment Fund  
 23          into the Tier II Investment Fund (established under  
 24          section 254).

1           “(2) SEPARATE ACCOUNTING AND CRED-  
2           TING.—Subject to this paragraph, the Board shall  
3           provide for ongoing separate accounting in the par-  
4           ticipant’s part B totalization account of the amounts  
5           deposited in the Tier II Investment Fund with re-  
6           spect to such participant during each calendar year,  
7           together with any increases or decreases therein for  
8           such year so as to reflect the net returns and losses  
9           from investment thereof under section 254 while  
10          held in the Tier II Investment Fund during such  
11          year.

12          “(c) DEPOSITS TO TIER III INVESTMENT AC-  
13          COUNTS.—

14               “(1) IN GENERAL.—In any case in which, as of  
15          the end of any calendar year, the total balance in  
16          the Tier II Investment Fund credited to the partici-  
17          pant’s part B totalization account exceeds for the  
18          first time the minimum deposit balance, the Board  
19          shall, by regulation, provide for an opportunity for  
20          such participating individual to make, at any time  
21          thereafter, such individual’s first election of a Tier  
22          III investment account for investment of an amount  
23          credited to the participant’s part B totalization ac-  
24          count. Such election may be in lieu of or in addition



1 to investment in any option available with respect to  
2 the Tier II Investment Fund.

3 “(2) MINIMUM DEPOSIT BALANCE.—

4 “(A) IN GENERAL.—Subject to subpara-  
5 graph (B), the term ‘minimum deposit balance’  
6 means an amount equal to \$10,000.

7 “(B) ADJUSTMENTS.—The Board shall ad-  
8 just annually (effective for years after Decem-  
9 ber 2005) the dollar amount set forth in sub-  
10 paragraph (A) under procedures providing for  
11 adjustments in the same manner and to the  
12 same extent as adjustments are provided for  
13 under the procedures used to adjust benefit  
14 amounts under section 215(i)(2)(A), except that  
15 any amount so adjusted that is not a multiple  
16 of \$1.00 shall be rounded to the nearest mul-  
17 tiple of \$1.00.

18 “(3) SUBSEQUENT INVESTMENT.—At any time  
19 after a participant’s first election of a Tier III in-  
20 vestment account pursuant to paragraph (1), the  
21 participant may invest any portion of the balance  
22 credited to the participant’s part B totalization ac-  
23 count in a Tier III investment account, the Tier II  
24 Investment Fund, or any combination thereof, as  
25 elected by the participant from time to time in ac-

1 cordance with regulations of the Board under this  
2 part.

3 “(d) ACCOUNTING FOR TOTAL INVESTED AMOUNTS  
4 BY MEANS OF PART B TOTALIZATION ACCOUNTS.—

5 “(1) ESTABLISHMENT OF ACCOUNTS.—As soon  
6 as practicable after the later of January 1, 2005, or  
7 the date on which an individual becomes a partici-  
8 pant under this part, the Executive Director shall  
9 establish and maintain a part B totalization account  
10 for such participant. Such account shall be the  
11 means by which amounts held in the Tier I Invest-  
12 ment Fund, the Tier II Investment Fund, and any  
13 Tier III investment account of such participant are  
14 credited to such participant under this part, under  
15 procedures which shall be established by the Board  
16 by regulation. The part B totalization account of a  
17 participant shall be identified to such participant by  
18 means of the participant’s social security account  
19 number.

20 “(2) ACCOUNT BALANCE.—The balance in a  
21 participant’s part B totalization account at any time  
22 is the sum of—

23 “(A) any balance in the Tier I Investment  
24 Fund credited to such participant’s part B to-  
25 talization account prior to transfer to the Tier

1           II Investment Fund under section 252(b)(1);  
2           plus

3           “(B) the excess of—

4                   “(i) all deposits in the Tier II Invest-  
5                   ment Fund credited to such participant’s  
6                   part B totalization account under sub-  
7                   section (a) (including the proceeds of any  
8                   sale by such participant, as provided in  
9                   section 257(e), of any recognition bond  
10                  issued in the name of the participant  
11                  under section 257(b)), subject to such in-  
12                  creases and reductions as may result from  
13                  allocations made to and reductions made in  
14                  the account pursuant to paragraph (3)(A)  
15                  with respect to amounts in the Tier II In-  
16                  vestment Fund; over

17                   “(ii) amounts credited to such partici-  
18                   pant’s part B totalization account under  
19                   subsection (a) paid out of the Tier II In-  
20                   vestment Fund under this part; plus

21           “(C) the excess of—

22                   “(i) the deposits to any Tier III in-  
23                   vestment account of such participant, sub-  
24                   ject to such increases and reductions as  
25                   may result from allocations made to and

1 reductions made in the Tier III investment  
 2 account pursuant to paragraph (3)(B);  
 3 over

4 “(ii) amounts paid out of such partici-  
 5 pating individual’s Tier III investment ac-  
 6 count under this part.

7 “(3) ALLOCATION OF EARNINGS AND LOSSES.—  
 8 Pursuant to regulations which shall be prescribed by  
 9 the Board, the Executive Director shall allocate to  
 10 the part B totalization account of each participant  
 11 an amount equal to the net earnings and net losses  
 12 from each investment of sums—

13 “(A) in the Tier II Investment Fund which  
 14 are attributable to sums credited to such par-  
 15 ticipant’s part B totalization account, reduced  
 16 by an appropriate share of the administrative  
 17 expenses paid out of the net earnings, as deter-  
 18 mined by the Executive Director; and

19 “(B) in any Tier III investment account of  
 20 such participant, reduced by administrative ex-  
 21 penses.

22 “(e) TREATMENT OF TRANSFERS.—Transfers from  
 23 the Federal Old-Age and Survivors Insurance Trust Fund  
 24 to the Tier I Investment Fund and transfers among the  
 25 Tier I Investment Fund, Tier II Investment Fund, and

1 Tier III investment accounts under this part shall not be  
 2 included in the totals of the budget of the United States  
 3 Government as submitted by the President or of the con-  
 4 gressional budget and shall be exempt from any general  
 5 budget limitation imposed by statute on budget outlays of  
 6 the United States Government.

7 **“SEC. 253. TIER I INVESTMENT FUND.**

8       “(a) ESTABLISHMENT OF TIER I INVESTMENT  
 9 FUND.—There is established in the Treasury of the  
 10 United States a trust fund to be known as the ‘Tier I  
 11 Investment Fund’. The Board shall serve as trustees of  
 12 such Fund. The Fund consists of all amounts derived from  
 13 payments into the Fund under section 252(a) and remain-  
 14 ing after investment of such amounts under subsection (b)  
 15 of this section, including additional amounts derived as in-  
 16 come from such investments. The amounts held in the  
 17 Fund are appropriated and shall remain available without  
 18 fiscal year limitation—

19               “(1) to be held for investment on behalf of par-  
 20 ticipants under subsection (b),

21               “(2) to pay the administrative expenses related  
 22 to the Fund and to investment under subsection (b),

23               “(3) to make transfers to the Tier II Invest-  
 24 ment Fund under section 252(b) or to Tier III in-  
 25 vestment accounts under section 252(c),

1           “(4) to make payments under section  
2       260(a)(2), and

3           “(5) to make lump sum distributions under  
4       subsections (c) and (d).

5       “(b) INVESTMENT OF FUND BALANCE.—For pur-  
6 poses of investment of the Tier I Investment Fund, the  
7 Board shall contract with appropriate professional asset  
8 managers selected for investment of amounts held in the  
9 Fund, so as to provide for investment of the balance of  
10 the Fund, in a manner providing broad diversification in  
11 accordance with regulations of the Board, in certificates  
12 of deposit or other instruments or obligations selected by  
13 such asset managers, which return the amount invested  
14 and pay interest, at a specified rate or rates, on that  
15 amount during a specified period of time.

16       “(c) RETIREMENT DISTRIBUTION.—As soon as prac-  
17 ticable after the commencement of the distribution under  
18 section 256 of assets credited to a participant’s part B  
19 totalization account, the amount of any assets in the Tier  
20 I Investment Fund credited to such account shall be dis-  
21 tributed to such participant in a lump sum, under rules  
22 established by the Board.

23       “(d) LUMP SUM PAYMENT TO ESTATE UPON DEATH  
24 OF PARTICIPANT.—Upon the death of a participant, the  
25 amount of any assets in the Tier I Investment Fund cred-

1 ited to such participant's part B totalization account shall  
 2 be transferred in a lump sum, under rules established by  
 3 the Board—

4 “(1) in any case in which one or more bene-  
 5 ficiaries have been designated in advance, in accord-  
 6 ance with regulations which shall be prescribed by  
 7 the Board, to such beneficiaries in accordance with  
 8 such designation as provided in such regulations,  
 9 and

10 “(2) in the case of any amount not distributed  
 11 as described in paragraph (1), to such participant's  
 12 estate.

13 **“SEC. 254. TIER II INVESTMENT FUND.**

14 “(a) ESTABLISHMENT OF TIER II INVESTMENT  
 15 FUND.—There is established in the Treasury of the  
 16 United States a trust fund to be known as the ‘Tier II  
 17 Investment Fund’. The Board shall serve as trustees of  
 18 such Fund. The Fund consists of all amounts derived from  
 19 payments into the Fund under section 252(b)(1) and re-  
 20 maining after investment of such amounts under sub-  
 21 section (b) of this section, including additional amounts  
 22 derived as income from such investments. The amounts  
 23 held in the Fund are appropriated and shall remain avail-  
 24 able without fiscal year limitation—

1           “(1) to be held for investment under subsection  
2       (b),

3           “(2) to pay the administrative expenses related  
4       to the Fund and to investment under subsection (b),

5           “(3) to make transfers to Tier III investment  
6       accounts under section 252(c)(1),

7           “(4) to make retirement distributions in accord-  
8       ance with section 256, and

9           “(5) to make lump sum distributions under sec-  
10      tion 256 and subsection (c) of this section.

11       “(b) INVESTMENT IN EQUITIES AND FIXED INCOME  
12      INSTRUMENTS IN MANAGEMENT ACCOUNTS.—

13           “(1) IN GENERAL.—For purposes of investment  
14      of the Tier II Investment Fund, the Board shall di-  
15      vide the Fund into multiple management accounts.  
16      Such accounts shall consist of the 60/40 manage-  
17      ment account and 2 or more additional management  
18      accounts providing for investment in each account in  
19      a combination of equities and fixed income instru-  
20      ments in accordance with prescribed percentages, as  
21      provided in paragraph (2). The Board shall contract  
22      with appropriate investment managers selected for  
23      investment of amounts held in each management ac-  
24      count.



1           “(2) RULES RELATING TO MANAGEMENT AC-  
2       COUNTS.—

3           “(A) IN GENERAL.—The investment man-  
4       ager selected for investment of amounts held in  
5       each management account referred to in para-  
6       graph (1) shall invest such amounts under reg-  
7       ulations which shall be prescribed by the Board  
8       so as to ensure, to the maximum extent prac-  
9       ticable, that, of the total balance in the Fund  
10      credited to such account and available for in-  
11      vestment (after allowing for administrative ex-  
12      penses)—

13           “(i) the prescribed equities percentage  
14      is invested in equities in accordance with  
15      paragraph (4), and

16           “(ii) the prescribed fixed income in-  
17      strument percentage is invested in fixed in-  
18      come instruments in accordance with para-  
19      graph (5).

20           “(B) PRESCRIBED PERCENTAGES.—For  
21      purposes of subparagraph (A)—

22           “(i) THE 60/40 MANAGEMENT AC-  
23      COUNT.—In the case of the 60/40 manage-  
24      ment account—

1 “(I) the prescribed equities per-  
2 centage is 60 percent, and

3 “(II) the prescribed fixed income  
4 instrument percentage is 40 percent.

5 “(ii) OTHER MANAGEMENT AC-  
6 COUNTS.—In the case of any other man-  
7 agement account—

8 “(I) the prescribed equities per-  
9 centage is a prescribed percentage not  
10 in excess of 80 percent, and

11 “(II) the prescribed fixed income  
12 instrument percentage is the remain-  
13 ing percentage of the amount invested  
14 in the management account.

15 “(3) ELECTION OF MANAGEMENT ACCOUNTS.—

16 “(A) DEFAULT MANAGEMENT ACCOUNT.—  
17 Except as provided in an election in effect  
18 under subparagraph (B), amounts held in the  
19 Tier II Investment Fund shall be credited to  
20 the 60/40 management account.

21 “(B) ELECTION OF TRANSFERS BETWEEN  
22 MANAGEMENT ACCOUNTS.—Pursuant to the  
23 written election, filed in accordance with regula-  
24 tions of the Board and received by the Sec-  
25 retary of the Treasury during an applicable

1 election month by a participant who has an  
2 amount credited to such participant's part B  
3 totalization account invested in any of the man-  
4 agement accounts in the Tier II Investment  
5 Fund, the Secretary of the Treasury shall  
6 transfer such amount from such account to any  
7 of the other management accounts in the Tier  
8 II Investment Fund (whichever is designated in  
9 such election).

10 “(C) APPLICABLE ELECTION MONTH.—For  
11 purposes of subparagraph (B), the term ‘appli-  
12 cable election month’, in connection with a par-  
13 ticipant, means—

14 “(i) the calendar month in which oc-  
15 curs the anniversary of such participant's  
16 birth, and

17 “(ii) the 6th calendar month following  
18 such month.

19 “(4) INVESTMENT IN EQUITIES.—In accordance  
20 with regulations which shall be prescribed by the  
21 Board, the Board shall establish standards which  
22 must be met by equities selected for investment of  
23 amounts in any management account in the Tier II  
24 Investment Fund pursuant to paragraph (2)(A)(i).  
25 In conformity with such standards, the Board shall

1 select, for purposes of such investment, indices  
2 which are comprised of equities the aggregate mar-  
3 ket value of which is, in each case, a reasonably  
4 broad representation of companies whose shares are  
5 traded on the equity markets. Amounts invested in  
6 equities by each investment manager shall be held in  
7 a portfolio designed to replicate the performance of  
8 one or more of such indices.

9 “(5) INVESTMENT IN FIXED INCOME INSTRU-  
10 MENTS.—In accordance with regulations which shall  
11 be prescribed by the Board, the Board shall estab-  
12 lish standards which must be met by fixed income  
13 instruments selected for investment of amounts in  
14 any management account in the Tier II Investment  
15 Fund pursuant to paragraph (2)(A)(ii). Such stand-  
16 ards shall take into account the competing consider-  
17 ations of risk and return. Amounts invested in fixed  
18 income instruments by each investment manager  
19 shall be held in a portfolio which shall consist of a  
20 diverse range of fixed income instruments, taking  
21 into full account the opposing considerations of risk  
22 and maximization of return.

23 “(c) PERIODIC REPORTS BY BOARD.—

24 “(1) IN GENERAL.—The Board shall make peri-  
25 odic reports concerning the status of the investment

1 in the Tier II Investment Fund of amounts credited  
2 to each participant's part B totalization account.  
3 Each periodic report shall be furnished to the partic-  
4 ipant on at least a semiannual basis on or before the  
5 60th day following the period for which the report  
6 is required.

7 “(2) INFORMATION REQUIRED TO BE IN-  
8 CLUDED.—The periodic report shall contain the fol-  
9 lowing information for transactions occurring during  
10 the period for which the report is provided:

11 “(A) The balance in the Tier II Investment  
12 Fund credited to the participant's part B total-  
13 ization account.

14 “(B) The rate of return on such balance  
15 for the period covered, set forth separately for  
16 each management account in the case of an in-  
17 vestment in 2 or more management accounts  
18 during the period.

19 “(C) The amount of authorized contribu-  
20 tions made to the Tier II management account  
21 and credited to the participant's part B total-  
22 ization account.

23 “(D) The name and address of the Board.

24 “(E) Commission fees and fees for admin-  
25 istrative expenses charged in connection with

1 the investment in the Tier II Improvement  
2 Fund during the period.

3 “(F) Other information which may be re-  
4 quired from time to time by the Board.

5 The language of the report shall be written in a  
6 form so as to be understood by the average partici-  
7 pant.

8 “(d) LUMP SUM PAYMENT TO ESTATE UPON DEATH  
9 OF PARTICIPANT.—Upon the death of a participant, the  
10 amount of any assets in the Tier II Investment Fund cred-  
11 ited to such participant’s part B totalization account shall  
12 be transferred in a lump sum, under rules established by  
13 the Board—

14 “(1) in any case in which one or more bene-  
15 ficiaries have been designated in advance, in accord-  
16 ance with regulations which shall be prescribed by  
17 the Board, to such beneficiaries in accordance with  
18 such designation as provided in such regulations,  
19 and

20 “(2) in the case of any amount not distributed  
21 as described in paragraph (1), to such individual’s  
22 estate.

23 **“SEC. 255. TIER III INVESTMENT ACCOUNTS.**

24 “(a) DESIGNATION OF TIER II INVESTMENT AC-  
25 COUNTS.—Under regulations prescribed by the Board, a

1 participant, upon the initial attainment of a minimum de-  
 2 posit balance in amounts in the Tier II Investment Fund  
 3 credited to the participant's part B totalization account,  
 4 as described in section 252(c), may designate to the  
 5 Board, in such form and manner as shall be prescribed  
 6 in such regulations, a Tier III investment account to  
 7 which deposits with respect to the individual are to be  
 8 made under section 252(c). The individual may designate  
 9 another Tier III investment account in lieu of any account  
 10 previously designated, in accordance with regulations of  
 11 the Board.

12 “(b) DEFINITION.—For purposes of this part, the  
 13 term ‘Tier III investment account’ means a trust created  
 14 or organized in the United States for the exclusive benefit  
 15 of a participant or his beneficiaries, but only if the written  
 16 governing instrument creating the trust meets the fol-  
 17 lowing requirements:

18 “(1) RESTRICTED CONTRIBUTIONS.—No con-  
 19 tribution will be accepted unless it is in the form of  
 20 a deposit to the account pursuant to section  
 21 252(c)(1).

22 “(2) TRUSTEE REQUIREMENTS.—The trustee  
 23 is—

24 “(A) a bank (as defined in section 581 of  
 25 the Internal Revenue Code of 1986),

1           “(B) an insured credit union (as defined in  
2           section 101(6) of the Federal Credit Union  
3           Act),

4           “(C) a corporation which, under the laws  
5           of the State of its incorporation, is subject to  
6           supervision and examination by the Commis-  
7           sioner of Banking or other officer of such State  
8           in charge of the administration of the banking  
9           laws of such State,

10          “(D) a regulated investment company (as  
11          defined in section 851 of the Internal Revenue  
12          Code of 1986) for which an election is in effect  
13          under section 851(b)(1) of such Code, or

14          “(E) any other person designated by the  
15          Board under regulations prescribed under this  
16          paragraph,

17          but only if the trustee demonstrates to the satisfac-  
18          tion of the Board that its portfolio assets either rep-  
19          licate the assets of a broad-based index of equities  
20          or fixed income instruments which is approved by  
21          the Board or are of a type that the Board has deter-  
22          mined not to involve high risks for the investor, and  
23          that the manner in which it will administer the trust  
24          will be consistent with the requirements of this sec-  
25          tion.



1           “(3) NONFORFEITABILITY.—The interest of an  
2           individual in the balance of his account is nonforfeit-  
3           able.

4           “(4) DIVERSIFICATION.—The investment op-  
5           tions made available to participants by the trustee  
6           include reasonably diversified options of equities,  
7           fixed income instruments, or a combination of both.

8           “(5) SEPARATION OF ASSETS.—The assets of  
9           the trust will not be commingled with other property  
10          except in a common trust fund or common invest-  
11          ment fund.

12          “(c) INVESTMENT STANDARDS.—The trustee of a  
13          Tier III investment account shall invest amounts credited  
14          to the part B totalization account of a participant which  
15          are held in such account in accordance with standards  
16          which shall be prescribed by the Board by regulation. Such  
17          standards shall ensure that investments made available to  
18          participants by the trustee are reasonably diversified, that  
19          assets held in a Tier III investment account are nonforfeit-  
20          able, and that the trustee complies with applicable fidu-  
21          ciary requirements.

22          “(d) PERIODIC REPORTS BY ACCOUNT TRUSTEE.—

23                 “(1) IN GENERAL.—The trustee of a partici-  
24          pant’s Tier III investment account shall, in accord-  
25          ance with regulations of the Board, make periodic

1 reports concerning the status of the account which  
2 shall meet the requirements of this section. Each  
3 periodic report shall be furnished to the participant  
4 on at least a semiannual basis on or before the 60th  
5 day following the period for which the report is re-  
6 quired.

7 “(2) INFORMATION REQUIRED TO BE IN-  
8 CLUDED.—The periodic report shall contain the fol-  
9 lowing information for transactions occurring during  
10 the period for which the report is provided:

11 “(A) The balance in the Tier III invest-  
12 ment account.

13 “(B) The rate of return for the period cov-  
14 ered.

15 “(C) The amount of authorized account  
16 contributions.

17 “(D) The name and address of the trustee.

18 “(E) Commission fees and fees for admin-  
19 istrative expenses charged in connection with  
20 the account.

21 “(F) Other information which may be re-  
22 quired from time to time by the Board.

23 The language of the report shall be written in a  
24 form so as to be understood by the average partici-  
25 pant.

1           “(3) REPORTS TO BOARD.—The Board may re-  
2       quire the periodic report to be filed with the Board  
3       at such time as the Board may specify in regulations  
4       under this section, except that at least 1 periodic re-  
5       port filed annually with Board shall provide informa-  
6       tion with respect to the account as of December 31  
7       preceding the date of the issuance of the report.

8           “(4) FAILURE BY TRUSTEE TO MAKE TIMELY  
9       PERIODIC REPORTS.—

10           “(A) IN GENERAL.—The trustee of a Tier  
11       III investment account shall be subject to a civil  
12       penalty of not to exceed \$100 a day from the  
13       date of such trustee’s failure or refusal to fur-  
14       nish the periodic report required to be furnished  
15       by the trustee under this subsection until the  
16       date on which such report is furnished.

17           “(B) PENALTIES ASSESSED BY BOARD.—  
18       Any civil penalty assessed by this paragraph  
19       shall be imposed by the Board and collected in  
20       a civil action. The Board may compromise the  
21       amount of any civil penalty imposed by this  
22       paragraph. The Board may waive the applica-  
23       tion of this paragraph with respect to any fail-  
24       ure if the Board determines that such failure is

1           due to reasonable cause and not to intentional  
2           disregard of rules and regulations.

3           “(e) LUMP SUM PAYMENT TO ESTATE UPON DEATH  
4 OF ACCOUNT HOLDER.—Upon the death of a participant  
5 who has an amount credited to such participant’s part B  
6 totalization account invested in a Tier III investment ac-  
7 count, such amount shall be distributed in a lump sum  
8 distribution, under rules established by the Board—

9           “(1) in any case in which one or more bene-  
10          ficiaries have been designated in advance, in accord-  
11          ance with regulations which shall be prescribed by  
12          the Board, to such beneficiaries in accordance with  
13          such designation as provided in such regulations,  
14          and

15          “(2) in the case of any amount not distributed  
16          as described in paragraph (1), to the participant’s  
17          estate.

18 **“SEC. 256. RETIREMENT DISTRIBUTIONS.**

19          “(a) IN GENERAL.—Except as provided in this sec-  
20 tion, amounts credited to a participant’s part B total-  
21 ization account may be distributed to the participant only  
22 on and after the participant’s retirement date. Such dis-  
23 tribution shall be in the form of—

24          “(1) an individual social security annuity meet-  
25          ing the requirements of subsection (b),

1 “(2) a programmed withdrawal meeting the re-  
2 quirements of subsection (c), or

3 “(3) a combination, meeting the requirements  
4 of subsection (d), of an individual social security an-  
5 nuity (meeting the requirements of paragraph (2))  
6 and a lump sum distribution.

7 Not later than the date on which the participant attains  
8 age 62, and at any other time upon the request of the  
9 participant, the Board shall notify the participant of the  
10 most recent listing of forms of distribution approved under  
11 this section and the entitlement (if any) of the participant  
12 to such a distribution.

13 “(b) RETIREMENT DATE.—For purposes of this sec-  
14 tion, the term ‘retirement date’, in connection with a par-  
15 ticipant, means the earlier of—

16 “(1) any date as of which the participant has  
17 attained retirement age (as defined in section  
18 216(l)(1)), or

19 “(2) the date designated for distribution of the  
20 balance in the participant’s part B totalization ac-  
21 count pursuant to section 260.

22 “(c) PURCHASE OF ANNUITIES.—

23 “(1) IN GENERAL.—

24 “(A) SELECTION OF ANNUITY.—On the  
25 participant’s retirement date, the participant

1 may purchase an individual social security an-  
2 nuity selected from among the annuities ap-  
3 proved by the Board under paragraph (2).

4 “(B) TRANSFER OF ASSETS.—Upon the  
5 selection by a participant under subparagraph  
6 (A), the Board shall provide for the transfer of  
7 all assets credited to the participant’s part B  
8 totalization account and determined under reg-  
9 ulations of the Board to be available for dis-  
10 tribution to purchase the annuity selected by  
11 the individual.

12 “(2) APPROVAL OF INDIVIDUAL SOCIAL SECU-  
13 RITY ANNUITIES.—

14 “(A) CERTIFICATION OF ISSUERS.—

15 “(i) IN GENERAL.—The Board shall  
16 certify issuers eligible to enter into annuity  
17 contracts with participants under this sub-  
18 section.

19 “(ii) APPLICATION.—Any issuer that  
20 desires to be certified by the Board to  
21 issue an individual social security annuity  
22 shall submit an application to the Board at  
23 such time, in such manner, and containing  
24 such information as the Board may re-  
25 quire.

1           “(iii) SEPARATION FROM OTHER OP-  
2           ERATIONS.—As a condition of certification  
3           under this subparagraph, each issuer shall  
4           maintain each individual social security an-  
5           nuity issued by such issuer separate from  
6           all other operations of the issuer.

7           “(iv) EXEMPTION FROM THIRD PARTY  
8           CLAIMS.—Each individual social security  
9           annuity shall be exempt from any and all  
10          third party claims against the issuer.

11          “(B) APPROVAL OF INDIVIDUAL SOCIAL  
12          SECURITY ANNUITIES.—

13               “(i) IN GENERAL.—No funds may be  
14               transferred into an individual social secu-  
15               rity annuity unless the Board has approved  
16               an application submitted under clause (ii)  
17               with respect to the annuity.

18               “(ii) APPLICATION.—With respect to  
19               each individual social security annuity that  
20               an issuer certified under subparagraph  
21               (A)(i) seeks to issue, such issuer shall sub-  
22               mit an application to the Board at such  
23               time, in such manner, and containing such  
24               information as the Board may require.

1                   “(iii) QUALIFICATIONS FOR AP-  
2                   PROVAL.—The Board may not approve an  
3                   application under clause (i) unless the indi-  
4                   vidual social security annuity that is the  
5                   subject of the application meets qualifica-  
6                   tions which shall be specified in regulations  
7                   of the Board. Such qualifications shall in-  
8                   clude the safety and soundness of the an-  
9                   nuity, the experience and record of per-  
10                  formance of the issuer issuing the annuity,  
11                  and such other factors as the Board may  
12                  determine appropriate.

13               “(d) PROGRAMMED WITHDRAWAL.—On the partici-  
14               pant’s retirement date, the participant may elect distribu-  
15               tion under this section of the balance credited to the par-  
16               ticipant’s part B totalization account as provided in this  
17               subsection. Such distribution shall be in the form of a  
18               combination of—

19                   “(1) equal annual or more frequent periodic in-  
20                   stallments of the principal portion of the balance  
21                   over twice his or her life expectancy, and

22                   “(2) any distribution of any remaining balance  
23                   in accordance with this section.

24               “(e) COMBINATION OF LUMP SUM PAYMENT AND  
25               ANNUITY.—On the participant’s retirement date, the par-



1 participant may elect distribution under this section of the  
2 balance credited to the participant's part B totalization  
3 account as provided in this subsection. Such distribution  
4 shall be in the form of a combination of a lump sum pay-  
5 ment and an annuity approved under subsection (b). Any  
6 such lump sum payment shall be limited to the extent nec-  
7 essary to ensure that remaining funds credited to the ac-  
8 count are sufficient to provide, through the purchase of  
9 such an annuity, a monthly payment over the life expect-  
10 ancy of the participant (determined under reasonable ac-  
11 tuarial assumptions) which is at least, on an annual basis,  
12 equal to 120 percent of the poverty line (as determined  
13 on such date, for an individual, under section 673(2) of  
14 the Community Services Block Grant Act (42 U.S.C.  
15 9902(2))).

16       “(f) LUMP SUM DISTRIBUTIONS OF DE MINIMIS  
17 AMOUNTS.—In any case in which, as of the date on which  
18 the participant attains retirement age (as defined in sec-  
19 tion 216(l)(1)), a distribution under this section has not  
20 commenced, and the total amount of the assets credited  
21 to the participant's part B totalization account is less than  
22 the minimum deposit balance (as defined in section  
23 252(c)(2)(B)), the preceding provisions of this section  
24 shall not apply, and such assets shall be distributed to the

1 participant in a lump sum upon the request of the partici-  
 2 pant, under rules established by the Board.

3 “(g) PROTECTION FROM ASSIGNMENT OR ALIEN-  
 4 ATION.—Payments in the form of distributions from the  
 5 Tier II Investment Fund or a Tier III investment account  
 6 may not be assigned or alienated.

7 **“SEC. 257. RECOGNITION BONDS.**

8 “(a) CERTIFICATION OF CREDITED WAGES AND  
 9 SELF-EMPLOYMENT INCOME.—Not later than July 1 fol-  
 10 lowing the effective date of an election to become a partici-  
 11 pant filed by an individual under section 259, the Commis-  
 12 sioner of Social Security shall certify to the Secretary of  
 13 the Treasury whether such individual was, as of imme-  
 14 diately before such effective date, credited with wages and  
 15 self-employment income under part A.

16 “(b) ISSUANCE OF BOND.—Immediately upon receipt  
 17 of certification under subsection (a) that an individual is  
 18 credited with wages and self-employment income under  
 19 part A, the Secretary of the Treasury shall issue a recogni-  
 20 tion bond in the name of such individual as an obligation  
 21 of the United States, which shall be deposited in the Tier  
 22 II Investment Fund and held in such Fund for such indi-  
 23 vidual together with such individual’s part B totalization  
 24 account. The purposes for which obligations of the United  
 25 States may be issued under chapter 31 of title 31, United

1 States Code, are hereby extended to authorize the issuance  
2 of public debt obligations consisting of recognition bonds  
3 issued under this paragraph. Each such obligation shall  
4 be evidenced by a paper instrument issued by the Sec-  
5 retary of the Treasury setting forth the terms specified  
6 in this section, and stating on its face that the obligation  
7 shall be incontestable in the hands of the bearer, that the  
8 obligation is supported by the full faith and credit of the  
9 United States, and that the United States is pledged to  
10 the payment of the obligation, in accordance with the pro-  
11 visions of this section.

12 “(c) CALCULATION OF FACE VALUE.—

13 “(1) IN GENERAL.—The face value of a rec-  
14 ognition bond issued in the name of an individual  
15 under this section shall be the actuarial present  
16 value of the future monthly insurance benefits under  
17 part A to which such individual would have been en-  
18 titled, and to which other individuals would have  
19 been entitled under part A based on such individ-  
20 ual’s wages and self-employment income, determined  
21 under then current law but as if section 215(j) did  
22 not apply and subject to paragraph (2) of this sub-  
23 section.

1           “(2) ASSUMPTIONS.—The actuarial present  
2       value determined under paragraph (1) shall be de-  
3       termined—

4           “(A) taking into account solely wages and  
5       self-employment income credited to such indi-  
6       vidual as of the effective date of the election re-  
7       ferred to in subsection (a),

8           “(B) assuming that such individual would  
9       become entitled to disability insurance benefits  
10      under section 223 (in lieu of old-age insurance  
11      benefits under section 202(a)) on the day such  
12      individual would attain retirement age (as de-  
13      fined in section 216(l)), except that, in com-  
14      puting average indexed monthly earnings under  
15      section 215(b), the number of such individual’s  
16      benefit computation years shall be determined  
17      without regard to any reduction in the number  
18      of elapsed years under section 215(b)(2)(A),  
19      and

20          “(C) using reasonable actuarial assump-  
21      tions, including reasonable current age-specific  
22      and gender-specific expected mortality rates.

23          “(d) REDEMPTION.—A bond issued in the name of  
24      any participant under this section shall be redeemable (by  
25      the participant or other person bearing the bond after sale

1 or resale pursuant to subsection (e)) on or after the date  
2 on which such participant would attain retirement age (as  
3 defined in section 216(l)(1)), for the amount of the face  
4 value.

5 “(e) NEGOTIABILITY AND CREDITING OF PROCEEDS  
6 TO PART B TOTALIZATION ACCOUNT.—A recognition  
7 bond issued in the name of a participant under this section  
8 shall not be taken into account in determining the amount  
9 credited to the participant’s part B totalization account.  
10 Such bond shall be fully tradable on the secondary mar-  
11 kets under such procedures as may be provided in regula-  
12 tions of the Board, and any amount derived by the partici-  
13 pant from the sale of such bond shall be deposited in the  
14 Tier II Investment Fund and shall be included in the total  
15 amount credited to such participant’s part B totalization  
16 account.

17 **“SEC. 258. SUPPLEMENTAL MINIMUM BENEFIT PAYMENTS.**

18 “(a) IN GENERAL.—In any case in which—

19 “(1) a participant attains retirement age (as  
20 defined in section 216(l)(1)),

21 “(2) as of the date such participant attains  
22 such age, no distribution from amounts credited to  
23 the participant’s part B totalization account has  
24 been made to the participant under section 260, and

1           “(3) as of such date, the balance in the partici-  
2           pant’s part B totalization account does not exceed  
3           the minimum annuity amount,  
4           the Board shall promptly notify the participant of the par-  
5           ticipant’s eligibility for a supplemental minimum benefit  
6           payment under this section. The participant, upon applica-  
7           tion to the Board filed by the participant on or after such  
8           date and in such form and manner as shall be prescribed  
9           by the Board, shall be entitled to a supplemental minimum  
10          benefit payment either to the Tier II Investment Fund (to  
11          the credit of the participant’s part B totalization account)  
12          or to the participant’s Tier III investment account, as may  
13          be specified by the participant in such application. Upon  
14          receipt of such application, the Board shall certify to the  
15          Secretary of the Treasury the amount of such payment,  
16          and such Secretary shall pay the amount of such payment  
17          to such Fund or such Tier III investment account in ac-  
18          cordance with such certification from funds otherwise  
19          available in the general fund of the Treasury.

20          “(b) AMOUNT OF SUPPLEMENTAL MINIMUM BEN-  
21          EFIT PAYMENT.—The amount of a supplemental min-  
22          imum benefit payment payable with respect to a partici-  
23          pant under subsection (a) is the excess (if any) of—

24                  “(1) the minimum annuity amount as of the  
25                  date described in subsection (a), over

1           “(2) the amount credited to the participant’s  
2           part B totalization account.

3           “(c) MARRIED COUPLES.—In the case of any 2 par-  
4           ticipants who are married, subsection (a) shall apply with  
5           respect to each such participant, upon the joint written  
6           request of such participants, by totalling the balances in  
7           the accounts referred to in subsection (a) of both such in-  
8           dividuals.

9           “(d) PROTECTION FROM ASSIGNMENT OR ALIEN-  
10          ATION.—Any supplemental minimum benefit payment  
11          under this section may not be assigned or alienated.

12          “(e) MINIMUM ANNUITY AMOUNT.—

13               “(1) IN GENERAL.—For purposes of this sec-  
14               tion, the term ‘minimum annuity amount’ means an  
15               amount necessary to purchase, as of the date de-  
16               scribed in subsection (a), an immediate life annuity  
17               which provides for payments which are, on an an-  
18               nual basis, at least equal to 120 percent of the pov-  
19               erty line (as in effect on such date, for an individual,  
20               under section 673(2) of the Community Services  
21               Block Grant Act (42 U.S.C. 9902(2))).

22               “(2) IMMEDIATE LIFE ANNUITY.—For purposes  
23               of paragraph (1), the term ‘immediate life annuity’  
24               means an annuity—

1           “(A) the annuity starting date (as defined  
 2           in section 72(c)(4) of the Internal Revenue  
 3           Code of 1986) of which commences with the  
 4           first month following the date described in sub-  
 5           section (a), and

6           “(B) which provides for a series of sub-  
 7           stantial equal annual payments over the life ex-  
 8           pectancy of the participant.

9   **“SEC. 259. ELECTION FOR PARTICIPATION.**

10       “(a) IN GENERAL.—Any individual who—

11           “(1) is not a participant (within the meaning of  
 12           section 251(1)(A)),

13           “(2) meets the requirements of clause (i) of sec-  
 14           tion 251(1)(B),

15           “(3) has not attained retirement age (as de-  
 16           fined in section 216(l)(1)), and

17           “(4) has not become entitled to old-age insur-  
 18           ance benefits under section 202(a),

19   may file with the Board under this section, in such form  
 20   and manner as shall be prescribed in regulations of the  
 21   Board, a written form electing the status of ‘participant’  
 22   for purposes of this part. On and after the effective date  
 23   of the election, such individual shall be treated as a partic-  
 24   ipant under this part.



1       “(b) EFFECTIVE DATE OF ELECTION.—An election  
 2 under this section shall take effect on January 1 of the  
 3 first calendar year beginning after 60 days after the date  
 4 of the filing of the election in accordance with subsection  
 5 (a).

6       “(c) IRREVOCABILITY.—Any election under this sec-  
 7 tion shall be irrevocable.

8       **“SEC. 260. EARLY DISTRIBUTION AND TERMINATION OF**  
 9                               **PARTICIPATION IN PROGRAM.**

10       “(a) IN GENERAL.—In any case in which the amount  
 11 credited to a participant’s part B totalization account as  
 12 of any date prior to the date on which the participant at-  
 13 tains retirement age (as defined in section 216(l)(1))  
 14 equals at least the amount necessary to purchase an im-  
 15 mediate life annuity which provides for payments which  
 16 are, on an annual basis, at least equal to 120 percent of  
 17 the poverty line (as in effect on such date, for an indi-  
 18 vidual, under section 673(2) of the Community Services  
 19 Block Grant Act (42 U.S.C. 9902(2))), the Board shall  
 20 promptly so inform the participant, and, upon application  
 21 of the participant filed with the Board under this section  
 22 in accordance with regulations of the Board—

23               “(1) the Board shall commence distribution  
 24       under section 256 of the amount credited to such  
 25       participant’s part B totalization account, and

1           “(2) in lieu of the transfer, after the date of the  
2           commencement of such distribution, of any amount  
3           credited to such participant’s part B totalization ac-  
4           count from the Tier I Investment Fund to the Tier  
5           II Investment Fund or a Tier III investment ac-  
6           count, the Board shall provide for the direct pay-  
7           ment of such amount to the participant.

8           “(b) IMMEDIATE LIFE ANNUITY.—For purposes of  
9           subsection (a), the term ‘immediate life annuity’ means  
10          an annuity—

11           “(1) the annuity starting date (as defined in  
12           section 72(c)(4) of the Internal Revenue Code of  
13           1986) of which commences with the first month fol-  
14           lowing the date referred to in subsection (a), and

15           “(2) which provides for a series of substantial  
16           equal annual payments over the life expectancy of  
17           the participant.

18           “(c) MARRIED COUPLES.—In the case of any 2 par-  
19           ticipants who are married, subsection (a) shall apply with  
20           respect to each such participant, upon the joint written  
21           request of such participants, by totalling the balances in  
22           the accounts referred to in subsection (a) of both such in-  
23           dividuals.

1 **“SEC. 261. INDIVIDUAL INVESTMENT BOARD.**

2 “(a) ESTABLISHMENT.—There is established in the  
3 executive branch of the Government an Individual Invest-  
4 ment Board.

5 “(b) COMPOSITION.—The Board shall be composed  
6 of—

7 “(1) 3 members appointed by the President, of  
8 whom 1 shall be designated by the President as  
9 Chairman; and

10 “(2) 2 members appointed by the President, of  
11 whom—

12 “(A) 1 shall be appointed by the President  
13 after taking into consideration the recommenda-  
14 tion made by the Speaker of the House of Rep-  
15 resentatives in consultation with the Minority  
16 Leader of the House of Representatives; and

17 “(B) 1 shall be appointed by the President  
18 after taking into consideration the recommenda-  
19 tion made by the Majority Leader of the Senate  
20 in consultation with the Minority Leader of the  
21 Senate.

22 “(c) ADVICE AND CONSENT.—Appointments under  
23 subsection (b) shall be made by and with the advice and  
24 consent of the Senate.

25 “(d) MEMBERSHIP REQUIREMENTS.—Members of  
26 the Board shall have substantial experience, training, and

1 expertise in the management of financial investments and  
2 pension benefit plans.

3 “(e) LENGTH OF APPOINTMENTS.—

4 “(1) TERMS.—A member of the Board shall be  
5 appointed for a term of 4 years, except that of the  
6 members first appointed under subsection (b)—

7 “(A) the Chairman shall be appointed for  
8 a term of 4 years;

9 “(B) the members appointed under sub-  
10 section (b)(2) shall be appointed for terms of 3  
11 years; and

12 “(C) the remaining members shall be ap-  
13 pointed for terms of 2 years.

14 “(2) VACANCIES.—

15 “(A) IN GENERAL.—A vacancy on the  
16 Board shall be filled in the manner in which the  
17 original appointment was made and shall be  
18 subject to any conditions that applied with re-  
19 spect to the original appointment.

20 “(B) COMPLETION OF TERM.—An indi-  
21 vidual chosen to fill a vacancy shall be ap-  
22 pointed for the unexpired term of the member  
23 replaced.

1           “(3) EXPIRATION.—The term of any member  
2           shall not expire before the date on which the mem-  
3           ber’s successor takes office.

4           “(f) DUTIES.—The Board shall—

5                 “(1) administer the program established under  
6           this part;

7                 “(2) establish policies for the investment and  
8           management of the Tier I Investment Fund, the  
9           Tier II Investment Fund, and Tier III investment  
10          accounts, including policies applicable to the asset  
11          managers with responsibility for managing the in-  
12          vestment of individual investment account balances,  
13          and for the management and operation of individual  
14          social security annuities purchased with Tier II In-  
15          vestment Fund assets, which shall provide for—

16                         “(A) prudent investments suitable for ac-  
17                         cumulating funds for payment of retirement in-  
18                         come;

19                         “(B) sound management practices; and

20                         “(C) low administrative costs;

21                 “(3) review the performance of investments  
22          made for the Tier I Investment Fund and the Tier  
23          II Investment Fund;

1           “(4) review the management and operation of  
2           individual social security annuities purchased with  
3           Tier II Investment Fund assets;

4           “(5) review the performance of investments  
5           made under Tier III investment accounts;

6           “(6) review and approve the budget of the  
7           Board; and

8           “(7) comply with the fiduciary requirements of  
9           part 4 of subtitle B of title I of the Employee Re-  
10          tirement Income Security Act of 1974 (relating to fi-  
11          duciary responsibility) in connection with any exer-  
12          cise of discretion in connection with the assets of the  
13          Tier I Investment Fund or the Tier II Investment  
14          Fund.

15          “(g) ADMINISTRATIVE PROVISIONS.—

16               “(1) IN GENERAL.—The Board may—

17                   “(A) adopt, alter, and use a seal;

18                   “(B) except as provided in paragraph (4),  
19           direct the Executive Director to take such ac-  
20           tion as the Board considers appropriate to  
21           carry out the provisions of this part and the  
22           policies of the Board in accordance with delega-  
23           tions under this part;

1           “(C) upon the concurring votes of 4 mem-  
2           bers, remove the Executive Director from office  
3           for good cause shown;

4           “(D) provide to the Executive Director  
5           such resources as are necessary to carry out the  
6           duties of the Executive Director; and

7           “(E) take such other actions as may be  
8           necessary to carry out the functions of the  
9           Board.

10          “(2) MEETINGS.—The Board shall meet—

11           “(A) not less than once during each  
12           month; and

13           “(B) at additional times at the call of the  
14           Chairman.

15          “(3) EXERCISE OF POWERS.—

16           “(A) IN GENERAL.—Except as provided in  
17           paragraph (1)(C), the Board shall perform the  
18           functions and exercise the powers of the Board  
19           on a majority vote of a quorum of the Board.  
20           Three members of the Board shall constitute a  
21           quorum for the transaction of business.

22           “(B) VACANCIES.—A vacancy on the  
23           Board shall not impair the authority of a  
24           quorum of the Board to perform the functions  
25           and exercise the powers of the Board.

1           “(4) LIMITATIONS ON INVESTMENTS.—The  
 2       Board may not direct any person to invest or to  
 3       cause to be invested any sums in the Tier II Invest-  
 4       ment Fund or any Tier III investment account in a  
 5       specific asset or to dispose of or cause to be disposed  
 6       of any specific asset of such Fund or any such ac-  
 7       count.

8       “(h) COMPENSATION.—

9           “(1) IN GENERAL.—Each member of the Board  
 10      who is not an officer or employee of the Federal  
 11      Government shall be compensated at the daily rate  
 12      of basic pay for level IV of the Executive Schedule  
 13      for each day during which such member is engaged  
 14      in performing a function of the Board.

15          “(2) EXPENSES.—A member of the Board shall  
 16      be paid travel, per diem, and other necessary ex-  
 17      penses under subchapter I of chapter 57 of title 5,  
 18      United States Code, while traveling away from such  
 19      member’s home or regular place of business in the  
 20      performance of the duties of the Board.

21          “(3) SOURCE OF FUNDS.—Payments authorized  
 22      under this subsection shall be paid from the Tier I  
 23      Investment Fund or the Tier II Investment Fund,  
 24      as determined appropriate by the Board.



1       “(i) DISCHARGE OF RESPONSIBILITIES.—The mem-  
2   bers of the Board shall discharge their responsibilities  
3   solely in the interest of the participants and their bene-  
4   ficiaries under this part.

5       “(j) ANNUAL INDEPENDENT AUDIT.—The Board  
6   shall annually engage an independent qualified public ac-  
7   countant to audit the activities of the Board.

8       “(k) SUBMISSION OF BUDGET TO CONGRESS.—The  
9   Board shall prepare and submit to the President, and, at  
10  the same time, to the appropriate committees of Congress,  
11  an annual budget of the expenses and other items relating  
12  to the Board which shall be included as a separate item  
13  in the budget required to be transmitted to Congress  
14  under section 1105 of title 31, United States Code.

15       “(l) SUBMISSION OF LEGISLATIVE RECOMMENDA-  
16  TIONS.—The Board may submit to the President, and, at  
17  the same time, shall submit to each House of Congress,  
18  any legislative recommendations of the Board relating to  
19  any of its functions under this part or any other provision  
20  of law.

21   **“SEC. 262. EXECUTIVE DIRECTOR OF THE INDIVIDUAL IN-**  
22                   **VESTMENT BOARD.**

23       “(a) APPOINTMENT OF EXECUTIVE DIRECTOR.—The  
24  Board shall appoint, without regard to the provisions of  
25  law governing appointments in the competitive service, an

1 Executive Director by action agreed to by a majority of  
2 the members of the Board.

3 “(b) DUTIES.—The Executive Director shall, as de-  
4 termined appropriate by the Board—

5 “(1) carry out the policies established by the  
6 Board;

7 “(2) invest and manage the Tier I Investment  
8 Fund and the Tier II Investment Fund in accord-  
9 ance with the investment policies and other policies  
10 established by the Board;

11 “(3) administer the provisions of this part re-  
12 lating to the Tier I Investment Fund and the Tier  
13 II Investment Fund; and

14 “(4) prescribe such regulations (other than reg-  
15 ulations relating to fiduciary responsibilities) as may  
16 be necessary for the administration of this part re-  
17 lating to the Tier I Investment Fund and the Tier  
18 II Investment Fund.

19 “(c) ADMINISTRATIVE AUTHORITY.—The Executive  
20 Director may, within the scope of the duties of the Execu-  
21 tive Director as determined by the Board—

22 “(1) appoint such personnel as may be nec-  
23 essary to carry out the provisions of this part relat-  
24 ing to the Tier I Investment Fund and the Tier II  
25 Investment Fund;

1           “(2) subject to approval by the Board, procure  
2           the services of experts and consultants under section  
3           3109 of title 5, United States Code;

4           “(3) secure directly from an Executive agency,  
5           the United States Postal Service, or the Postal Rate  
6           Commission any information necessary to carry out  
7           the provisions of this part and the policies of the  
8           Board relating to the Tier I Investment Fund and  
9           the Tier II Investment Fund;

10          “(4) make such payments out of sums in the  
11          Tier I Investment Fund and the Tier II Investment  
12          Fund as the Executive Director determines, in ac-  
13          cordance with regulations of the Board, are nec-  
14          essary to carry out the provisions of this part and  
15          the policies of the Board;

16          “(5) pay the compensation, per diem, and travel  
17          expenses of individuals appointed under paragraphs  
18          (1), (2), and (6) from the Tier I Investment Fund  
19          or the Tier II Investment Fund, in accordance with  
20          regulations of the Board;

21          “(6) accept and use the services of individuals  
22          employed intermittently in the Government service  
23          and reimburse such individuals for travel expenses,  
24          authorized by section 5703 of title 5, United States

1 Code, including per diem as authorized by section  
 2 5702 of such title;

3 “(7) except as otherwise expressly prohibited by  
 4 law or the policies of the Board, delegate any of the  
 5 Executive Director’s functions to such employees  
 6 under the Board as the Executive Director may des-  
 7 ignate and authorize such successive redelegations of  
 8 such functions to such employees under the Board  
 9 as the Executive Director may consider to be nec-  
 10 essary or appropriate; and

11 “(8) take such other actions as are appropriate  
 12 to carry out the functions of the Executive Direc-  
 13 tor.”.

14 (b) EFFECTIVE DATE.—The amendments made by  
 15 this section shall apply with respect to wages paid after  
 16 December 31, 2004, for pay periods ending after such  
 17 date and self-employment income for taxable years begin-  
 18 ning after such date.

19 **SEC. 3. TAX TREATMENT OF INDIVIDUAL SOCIAL SECURITY**  
 20 **INVESTMENT PROGRAM.**

21 (a) TAXATION WITH RESPECT TO ELEMENTS OF  
 22 THE PROGRAM.—

23 (1) IN GENERAL.—Subchapter F of chapter 1  
 24 of the Internal Revenue Code of 1986 (relating to

1 exempt organizations) is amended by adding at the  
 2 end the following new part:

3 **“PART IX—INDIVIDUAL SOCIAL SECURITY**  
 4 **INVESTMENT PROGRAM**

“Sec. 530A. Individual Social Security Investment Program.

5 **“SEC. 530A. INDIVIDUAL SOCIAL SECURITY INVESTMENT**  
 6 **PROGRAM.**

7 “(a) GENERAL RULE.—Any fund created, account  
 8 established, or annuity under part B of title II of the So-  
 9 cial Security Act is exempt from taxation under this sub-  
 10 title. Notwithstanding the preceding sentence, any such  
 11 fund or account is subject to the taxes imposed by section  
 12 511 (relating to imposition of tax on unrelated business  
 13 income of charitable, etc. organizations).

14 “(b) RECOGNITION BONDS.—Gross income shall not  
 15 include—

16 “(1) the value of a recognition bond issued to  
 17 a participant under section 257(b) of the Social Se-  
 18 curity Act which is deposited in the Tier II Invest-  
 19 ment Fund and held for such participant under such  
 20 section,

21 “(2) proceeds from the sale of a recognition  
 22 bond of a participant under section 257(e) of the  
 23 Social Security Act which are deposited in the Tier

1       II Investment Fund and held for such participant  
2       under section 257(b) of such Act, and

3               “(3) proceeds from the redemption of a recogni-  
4       tion bond of a participant under section 257(d) of  
5       the Social Security Act deposited in the Tier II In-  
6       vestment Fund to the credit of such participant’s  
7       part B totalization account under part B of title II  
8       of such Act.

9       For purposes of this subsection, the term ‘Tier II Invest-  
10      ment Fund’ has the meaning given such term by section  
11      251(6) of the Social Security Act.

12       “(c) DISTRIBUTIONS.—A distribution from any fund  
13      or account, or any annuity payment, under part B of title  
14      II of the Social Security Act shall not be included in the  
15      gross income of the distributee or payee.”.

16               (2)     CONFORMING     AMENDMENT.—Section  
17      86(d)(1)(A) of such Code is amended by inserting  
18      “part A of” after “under”.

19               (3)     CLERICAL     AMENDMENT.—The table of  
20      parts for subchapter F of chapter 1 of such Code is  
21      amended by adding after the item relating to part  
22      VIII the following new item:

“PART IX. INDIVIDUAL SOCIAL SECURITY INVESTMENT PROGRAM”.

23               (4)     EFFECTIVE DATE.—The amendments made  
24      by this subsection shall apply to taxable years begin-  
25      ning after December 31, 2004.

1       (b) EXCLUSION OF INDIVIDUAL INVESTMENT PRO-  
2       GRAM PARTICIPANTS FROM INSURANCE BENEFITS.—Sec-  
3       tion 215 of the Social Security Act (42 U.S.C. 415) is  
4       amended by adding at the end the following new sub-  
5       section:

6               “Exclusion of Individual Investment Program  
7                               Participants

8               “(j)(1) Except as provided in paragraph (3), a partic-  
9       ipant (as defined in section 251(1)) in the Individual So-  
10      cial Security Investment Program under part B shall not  
11      be credited with wages or self-employment income under  
12      this part.

13              “(2) In the case of an individual who becomes a par-  
14      ticipant under part B pursuant to an election filed under  
15      section 259, paragraph (1) shall apply with respect to  
16      wages paid in calendar years beginning on or after the  
17      effective date of the election and with respect to self-em-  
18      ployment income derived in taxable years ending after  
19      such date.

20              “(3) Paragraph (1) shall not apply in connection with  
21      the determination of any such participant’s entitlement to  
22      disability insurance benefits under section 223, the deter-  
23      mination of such participant’s primary insurance amount  
24      in connection with such entitlement, and the determina-

tion during such entitlement of benefits based on such participant's wages and self-employment income.”.

**SEC. 4. CPI-INDEXED BENEFITS FOR PART A BENEFICIARIES OTHER THAN DISABILITY BENEFICIARIES.**

(a) COMPUTATION OF BEND POINTS.—Section 215(a)(1)(B) of the Social Security Act (42 U.S.C. 415(a)(1)(B)) is amended—

(1) by redesignating clause (iii) as clause (vi);

(2) in clause (ii), by striking “For individuals” and inserting “Subject to clause (iii), for individuals”;

(3) by inserting after clause (ii) the following new clauses:

“(iii) For individuals who initially become eligible for old-age insurance benefits, or who die (before becoming eligible for such benefits), in any calendar year after 2012, each of the amounts so established under the preceding provisions of this subparagraph shall be equal to the product derived by multiplying such amount (as determined before the application of this clause) by the quotient derived by dividing—

“(I) the applicable change in the CPI for the first of the 2 preceding calendar years, by



1           “(II) applicable change in the national average  
2       wage index for the first of the 2 preceding calendar  
3       years.

4           “(iv) For purposes of clause (iii)(I), the term ‘appli-  
5       cable change in the CPI’ for a calendar year means the  
6       excess of—

7           “(I) the arithmetical mean of the Consumer  
8       Price Index for Urban Wage Earners and Clerical  
9       Workers (issued by the Bureau of Labor Statistics)  
10      for the 12 months in such calendar year, over

11          “(II) the arithmetical mean of such Consumer  
12      Price Index for the 12 months in calendar year  
13      2011.

14          “(v) For purposes of clause (iii)(II), the term ‘appli-  
15      cable change in the national average wage index’ for a cal-  
16      endar year means the excess of—

17          “(I) the national average wage index (as de-  
18      fined in section 209(k)(1)) for such calendar year,  
19      over

20          “(II) the national average wage index (as so de-  
21      fined) for calendar year 2011.”; and

22          (4) in clause (vi) (as redesignated), by striking  
23      “under clause (ii)” and inserting “under the pre-  
24      ceding provisions of this subparagraph”.

1       (b) SUBSTITUTION OF CPI FOR NATIONAL AVERAGE  
2 WAGE INDEX IN COMPUTING AVERAGE INDEXED MONTH-  
3 LY EARNINGS.—

4           (1) IN GENERAL.—Section 215(b)(3) of such  
5 Act (42 U.S.C. 415(b)(3)) is amended—

6           (A) in subparagraph (A)(ii)(I), by striking  
7 “national average wage index (as defined in sec-  
8 tion 209(k)(1))” and inserting “national aver-  
9 age wage index (as defined in section  
10 209(k)(1)) (for determinations of disability in-  
11 surance benefits and other benefits based on  
12 the wages and self-employment income of an in-  
13 dividual entitled to disability insurance benefits)  
14 or the consumer price index (for determinations  
15 of other benefits)”;

16          (B) in subparagraph (A)(ii)(II), by striking  
17 “national average wage index (as so defined)”  
18 and inserting “national average wage index (as  
19 so defined) (for determinations of disability in-  
20 surance benefits and other benefits based on  
21 the wages and self-employment income of an in-  
22 dividual entitled to disability insurance benefits)  
23 or the consumer price index (for determinations  
24 of other benefits)”;

1 (C) by redesignating subparagraph (B) as  
 2 subparagraph (C); and

3 (D) by inserting after subparagraph (A)  
 4 the following new subparagraph:

5 “(B) For purposes of this paragraph, the term ‘con-  
 6 sumer price index’ for a calendar year means the arithmet-  
 7 ical mean of the Consumer Price Index for Urban Wage  
 8 Earners and Clerical Workers (issued by the Bureau of  
 9 Labor Statistics) for the 12 months in such calendar  
 10 year.”.

11 (2) EFFECTIVE DATE.—The amendments made  
 12 by this subsection shall apply with respect to the av-  
 13 erage indexed monthly earnings of individuals at-  
 14 taining age 62, or dying before attaining such age,  
 15 on or after January 1, 2012.

16 **SEC. 5. MAINTENANCE OF ADEQUATE BALANCES IN THE**  
 17 **SOCIAL SECURITY TRUST FUNDS.**

18 (a) IN GENERAL.—Section 201 of the Social Security  
 19 Act (42 U.S.C. 401) is amended by adding at the end the  
 20 following new subsection:

21 “(n) In addition to amounts otherwise appropriated  
 22 under the preceding provisions of this section to the Trust  
 23 Funds established under this section, there is hereby ap-  
 24 propriated for each fiscal year to each of such Trust  
 25 Funds, from amounts in the general fund of the Treasury

1 not otherwise appropriated, such sums as may be nec-  
2 essary from time to time to maintain the balance ratio  
3 (as defined in section 709(b)) of such Trust Fund, for the  
4 calendar year commencing during such fiscal year, at not  
5 less than 100 percent. The sums to be appropriated under  
6 the preceding sentence shall be determined by the Com-  
7 missioner of Social Security and certified by the Commis-  
8 sioner to each House of the Congress not later than Octo-  
9 ber 1 of such fiscal year. In making such determination  
10 and certification, the Commissioner shall use the inter-  
11 mediate actuarial assumptions used by the Board of  
12 Trustees of the Trust Funds in its most recent annual  
13 report to the Congress prepared pursuant to subsection  
14 (c)(2). The Commissioner shall also transmit a copy of  
15 any such certification to the Secretary of the Treasury,  
16 and upon receipt thereof, such Secretary shall promptly  
17 take appropriate actions in accordance with the certifi-  
18 cation.”.

19 (b) EFFECTIVE DATE.—The amendment made by  
20 subsection (a) shall apply with respect to fiscal years be-  
21 ginning after the date of the enactment of this Act.

○